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Ecuador

Coffee Annual

Coffee Production Rebounding from Coffee Leaf Rust Outbreak

Approved By:

Mariano J. Beillard

Prepared By:

Henry Vega and Mariano J. Beillard

Report Highlights:

Ecuador's coffee production in marketing year (MY) 2015/16 (April/March) is forecast at 309,000 bags (60-kg per bag) on a Green Bean Equivalent (GBE) basis, up 17,000 bags or six percent compared to our MY 2014/15 estimate. We estimate coffee production in MY 2014/15 at 292,000 bags, up 33 percent compared to MY 2013/14 levels. The increase in production is attributable to ongoing recovery from the MY 2012/13 coffee leaf rust disease outbreak. Total domestic coffee consumption in MY 2015/16 is forecast at 268,000 bags GBE, up by 1,000 bags or less than one percent compared to our MY 2014/15 estimate of 267,000 bags. Exports of coffee in MY 2015/16 are forecast at 895,000 bags GBE, down 30,000 bags or three percent compared to our MY 2014/15 estimate of 925,000 bags. The MY 2014/15 estimate is down 85,000 bags, or nine percent compared to MY 2013/14 levels. The drop is attributable to lingering effects of the earlier coffee leaf rust outbreak.

Executive Summary

FAS Quito forecasts Ecuador's coffee production in marketing year (MY) 2015/16 (April/March) at 309,000 bags (60-kilograms per bag) on a Green Bean Equivalent (GBE) basis, up 17,000 bags or six percent compared to our MY 2014/15 estimate. We estimate coffee production in MY 2014/15 coming in at 292,000 bags, up 33 percent compared to MY 2013/14 levels. We attribute the increase in production to ongoing recovery from the MY 2012/13 coffee leaf rust disease (*Hemileia vastatrix*) outbreak, along with coffee lands renovated in 2012 coming into production.

FAS Quito forecasts Ecuador's total domestic coffee consumption in MY 2015/16 at about 268,000 bags GBE, up by some 1,000 bags or less than one percent compared to our MY 2014/15 estimate of 267,000 bags. We are observing a slight increase in domestic consumption. The uptick is attributable to natural population growth.

Ecuador maintains coffee stocks of about 260,000 bags (green bean equivalent). The government however does not manage or warehouses coffee stocks. Local soluble coffee manufacturers maintain coffee stocks.

FAS Quito forecasts Ecuador's exports of coffee in MY 2015/16 at 895,000 bags GBE, down 30,000 bags or about three percent compared to our MY 2014/15 estimate of 925,000 bags. Our MY 2014/15 estimate is down 85,000 bags, or nine percent compared to MY 2013/14 levels. We attribute the drop to lingering effects of the coffee leaf rust despite ongoing recovery from the MY 2012/13 outbreak. We estimate Ecuador in MY 2014/15 will export 160,000 bags of Arabica coffee beans along with some 760,000 bags of soluble coffee and some 5,000 bags of roasted-ground coffee. Soluble coffee exports accounted for 87 percent of Ecuador's coffee exports. Arabica bean exports account for six percent of overall coffee exports in CY 2014, while Robusta exports account for eight percent of exports.

Ecuador's constitution (adopted in 2008) establishes that only public agencies can benefit from fees and special contributions set forth by public law. Ecuador's Coffee Council (COFENAC), a public-private organization handling coffee policy and trade, was disbanded in February 2015. No fees or export taxes are currently being levied on coffee exports. Ecuador's Foreign Commerce Committee is responsible for authorizing imports of coffee beans. The Ministry of Agriculture commencing in 2015 has assumed control over coffee policies and technical assistance programs.

Commodity - Coffee, Green

Production

FAS Quito forecasts Ecuador's coffee production in marketing year (MY) 2015/16 (April/March) at 309,000 bags (60-kilograms per bag) on a Green Bean Equivalent (GBE) basis, up 17,000 bags or six percent compared to our MY 2014/15 estimate. We estimate coffee production in MY 2014/15 coming in at 292,000 bags, up 33 percent compared to MY 2013/14 levels. We attribute the increase in production to ongoing recovery from the MY 2012/13 coffee leaf rust disease (*Hemileia vastatrix*) outbreak, along with coffee lands renovated in 2012 coming into production.

Harvest area in MY 2015/16 is forecast to remain largely unchanged from our MY 2014/15 estimate of 108,000 hectares. Our MY 2014/15 estimate is however up 33,000 hectares or 44 percent compared to 2013/14 levels thanks to the abatement of the coffee leaf rust disease outbreak. Intercropping is common, reportedly occurring on 60 percent of the total planted area.

Ecuador, PSD Table, Coffee, Green Bean Equivalent

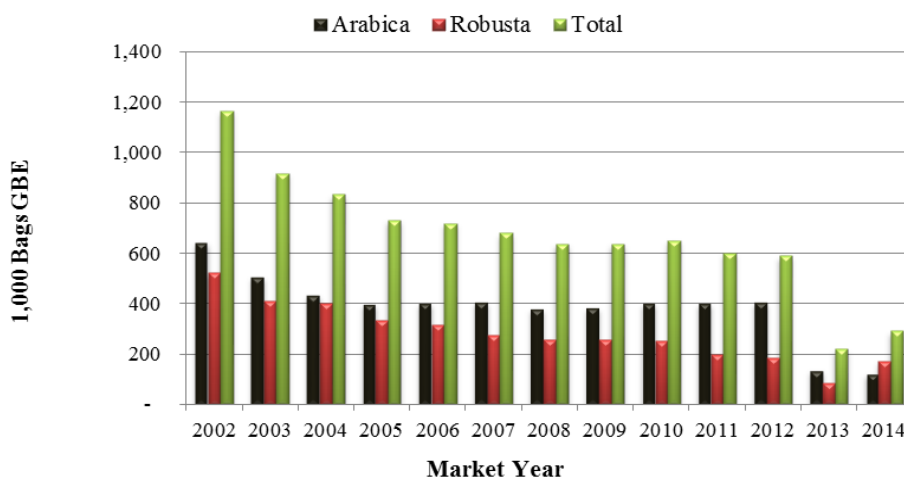
Coffee, Green Ecuador	2013/2014		2014/2015		2015/2016	
	Apr 2014		Apr 2015		Apr 2016	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	199	199	199	199	0	199
Area Harvested	119	75	123	108	0	108
Bearing Trees	92	59	95	85	0	87
Non-Bearing Trees	70	90	67	77	0	75
Total Tree Population	162	149	162	162	0	162
Beginning Stocks	164	164	75	251	0	250
Arabica Production	135	134	275	120	0	134
Robusta Production	85	85	125	172	0	175
Other Production	0	0	0	0	0	0
Total Production	220	219	400	292	0	309
Bean Imports	1,100	1,040	1,150	825	0	770
Roast & Ground Imports	10	5	5	4	0	4
Soluble Imports	70	68	80	70	0	70
Total Imports	1,180	1,113	1,235	899	0	844
Total Supply	1,564	1,496	1,710	1,442	0	1,403
Bean Exports	160	166	315	160	0	165
Rst-Grnd Exp.	4	4	5	5	0	5
Soluble Exports	1,060	810	1,035	760	0	725
Total Exports	1,224	980	1,355	925	0	895
Rst,Ground Dom. Consum	40	40	40	42	0	43
Soluble Dom. Cons.	225	225	225	225	0	225
Domestic Use	265	265	265	267	0	268
Ending Stocks	75	251	90	250	0	240
Total Distribution	1,564	1,496	1,710	1,442	0	1,403
1000 HA, MILLION TREES, 1000 60-KG BAGS						

About 53 percent of coffee production occurs in the coastal provinces. The province of Manabí alone accounts for 35 percent of total production. The Amazon and the Sierra (mountain) areas account for 25 and 22 percent of the Ecuador's coffee production. Robusta coffee is mainly planted in the Amazon, while Arabica coffee is cultivated mostly along the coastal provinces. Some 105,000 farmers are engaged in coffee production.

Coffee remains largely hand-picked in Ecuador; the use of fertilizer and modern irrigation systems are quite limited. Traditional cultivation still accounts for 80 percent of the crop, with yields seldom surpassing 300 kilograms (kg) (or five, 60-kg bags) per hectare. Plantations utilizing modern production methods experience yields of about 700 kilograms (or 12, 60-kg bags) per hectare. Yields in MY 2015/16 should average 172 kilograms per hectare, up from MY 2014/15's estimate yields of 162 kilograms per hectare which are down 13 kilograms per hectare from MY 2013/14's average of 175 kilograms per hectare.

Ecuador's production for over a decade has fallen. There is little sign of it returning at this juncture to the early 2000's higher production levels. Ecuador's coffee sector is limited by the lack of new varieties (i.e., cultivars derived by selective breeding or natural selection). Half of the country's coffee plantations are in need of investment; farmers are however reluctant to invest in new coffee tree varieties due to coffee's international price volatility.

Ecuador's Historical Coffee Production



Ecuador, Wholesale Coffee Prices (\$/60 Kilogram Bag, Green Coffee)

Month	Arabica (green)			Robusta (husked beans)		
	2013	2014	% Change	2013	2014	% Change
Jan	151.9	185.2	21.9	105.7	70.1	-33.7
Feb	142.8	178.6	25.1	112.9	71.4	-36.8
Mar	140.5	191.8	36.5	112.4	76.7	-31.8
Apr	140.3	203.7	45.2	107.0	76.7	-28.3
May	135.1	219.6	62.5	97.0	91.3	-5.9
Jun	131.6	207.7	57.8	96.0	93.9	-2.2
Jul	137.9	234.1	69.8	92.6	96.6	4.3
Aug	133.8	234.1	75.0	96.4	97.9	1.6
Sep	129.2	242.1	87.4	97.3	101.9	4.7
Oct	129.1	271.2	110.1	90.6	101.9	12.5
Nov	120.6	277.8	130.3	84.3	97.9	16.1
Dec	124.0	288.4	132.6	64.8	95.2	46.9
Average	134.7	227.9	69.2	96.4	89.3	-7.4

Source: Ecuador Ministry of Agriculture (MAGAP)/ National Information System (SINAGAP).

Farmers in calendar year (CY) 2014 were paid on average \$228 per 60-kg bag (Arabica), up \$135 or nearly 69 percent more than in 2013, but this amount is still off 2010's level of \$305 per 60-kg bag. Prices paid to farmers during 2010-14 have fallen with compound annual growth rate (CAGR) of negative seven percent. Robusta coffee prices averaged \$89 per 60-kg bag in 2014. FAS Quito anticipates that 2015 prices will largely mirror those of the preceding year.

Consumption

FAS Quito forecasts Ecuador's total domestic coffee consumption in MY 2015/16 at about 268,000 bags GBE, up by some 1,000 bags or less than one percent compared to our MY 2014/15 estimate of 267,000 bags.

FAS Quito observes a slight increase in domestic consumption. We attribute the uptick to natural population growth of 1.37 percent among the population of 15.7 million (Central Intelligence Agency – CIA, 2014 estimate). FAS Quito estimates per capita consumption of coffee at around 1.0 kilogram per person. The International Coffee Organization estimates Ecuador's domestic consumption (in 2011) at 0.61 kilograms per person.

Ecuadorians are mainly consumers of soluble (instant or powder) coffee more than they are of roasted and or ground coffee. Nonetheless consumption patterns are changing as the country's coffee drinking culture takes root. The market counts with the presence of homegrown specialty coffee outlets such as Café Vélez, Coffee Tree, and Sweet & Coffee, as well as with Colombia's Juan Valdez. The soluble coffee market is dominated by El Café (Grupo Noboa).

Stocks

Ecuador maintains coffee stocks of about 260,000 bags (green bean equivalent). The government however does not manage or warehouses coffee stocks. Local soluble coffee manufacturers maintain coffee stocks. Soluble coffee represents 80 percent of Ecuador's coffee sector.

Trade

FAS Quito forecasts Ecuador's exports of coffee in MY 2015/16 at 895,000 bags GBE, down 30,000 bags or about three percent compared to our MY 2014/15 estimate of 925,000 bags. Our MY 2014/15 estimate is down 85,000 bags, or nine percent compared to MY 2013/14 levels. We attribute the drop to lingering effects of coffee leaf rust despite ongoing recovery from the MY 2012/13 outbreak. We estimate Ecuador in MY 2014/15 will export 160,000 bags of Arabica coffee beans along with some 760,000 bags of soluble coffee and some 5,000 bags of roasted-ground coffee. Soluble coffee exports accounted for 87 percent of Ecuador's coffee exports. Arabica bean exports account for about five percent of overall coffee exports in CY 2014, while Robusta exports account for eight percent of exports.

Sources report that Ecuador's soluble coffee producers in MY 2014/15 are facing increased competition from Vietnam. Reportedly the new Nestlé processing plant can handle upwards of 1.4 million bags per annum. Industry sources indicate that their margins have contracted significantly as a consequence of Vietnam's additional new processing capacity. Ecuador's processing capacity also took a hit from Grupo Noboa's move in March 2015 to close its Guayaquil plant. This plant alone was responsible for 20-30

percent of Ecuador's soluble coffee manufacturing capacity. It remains to be seen whether the sector's other players will step in to fill the production vacuum.

FAS Quito forecasts Ecuador's total coffee imports in MY 2015/16 at 770,000 bags, down some 55,000 bags or nearly seven percent compared to our revised MY 2014/15 estimate of 825,000 bags. Imports of soluble coffee have remained steady at about 70,000 bags.

Ecuador's soluble coffee industry, unable to match the often higher prices paid by Colombia's own soluble coffee industry for Ecuadorian beans, is forced at times to import more affordably priced Vietnam-origin beans. These enter as temporary imports, are processed and then re-exported as spray and freeze-dried coffee products to European markets. Ecuador's statistics do not however report data for coffee beans temporarily imported for processing into soluble coffee and subsequent re-export. Ecuador exported \$153 million in coffee products classified under Harmonized Tariff System – HS Code 2101.11 (i.e., coffee extracts, essences, and concentrates) to the world in CY 2014, with some \$93 million alone in shipments to Germany and Poland.

Export Trade Matrix		
Country	Ecuador	
Commodity	Coffee, Green, in 60Kg Bags	
Destination	CY 2013	CY 2014
U.S.	61,456	100,485
Germany	261,183	316,590
Poland	357,351	261,809
Russia	198,913	121,692
Colombia	129,823	97,019
U.K.	89,193	73,161
Other countries	163,772	160,882
Total	1,261,691	1,131,638

Policy

Ecuador's constitution (2008) establishes that only public agencies can benefit from fees and special contributions set forth by public law. Ecuador's Coffee Council (COFENAC), a public-private organization handling coffee policy and trade, was disbanded in February 2015. No fees or export taxes are currently being levied on coffee exports. Ecuador's Foreign Commerce Committee is responsible for authorizing imports of coffee beans. The Ministry of Agriculture in 2015 assumed control over coffee policies and technical assistance programs.

The Ministry of Agriculture's \$70 million "Reactivation of Ecuador's Coffee Cultivation Project," is renovating 135,000 hectares of old coffee lands. To date the Ministry has renovated 41,000 hectares. Major results are expected to be announced prior to the 2017 presidential election.

Sources within the Ministry of Agriculture indicate that current heavy rains within production areas are within the norm. The Ministry is not forecasting that an El Niño will affect Ecuador's production in calendar year 2015. In the eventuality that an El Niño does occur, the Ministry will implement contingency plans which include the provision to farmers of crop protection products to help minimize the potential for a new outbreak of coffee leaf rust. The Ministry has also reportedly taken the preventative measure of implementing new irrigation and drainage works.